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WORLD MIDDLE EAST

High Oil Prices Lift Saudi Arabia, Bolster Prince's Economic Plans

A bonanza of extra revenue shows how high crude prices are benefiting the Persian Gulf's resource-rich economies



Saudi Arabia has one of the world's fastest-growing economies thanks to higher crude sales; the Khurais oil field.

PHOTO: AMR NABIL/ASSOCIATED PRESS

By *Stephen Kalin* [Follow](#) and *Rory Jones* [Follow](#)

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RIYADH, Saudi Arabia—The Saudi government posted a \$27 billion budget surplus Wednesday, as this year's high oil prices accelerate Crown Prince Mohammed bin Salman's ambitious plans and boost resource-rich economies across the Persian Gulf.

Buoyant crude prices helped the kingdom's economy expand at one of the fastest rates globally, with the government spending \$47 billion more than planned. In a year when global growth is pegged at 3.2%, the International Monetary Fund predicts growth of 7.6% this year in Saudi Arabia. The kingdom's output is expected to reach \$1 trillion for the first time, cementing its place among the world's biggest economies.

The boom times have extended to Saudi Arabia's Gulf neighbors, demonstrating how Russia's invasion of Ukraine has redrawn the world's energy map and

created new economic winners and losers. The United Arab Emirates and its commercial hub Dubai have benefited this year from high oil prices and a flood of Russian money that is continuing to drive economic growth after a strong postpandemic recovery. In Qatar, high natural-gas prices this year have helped cap off \$200 billion investment in infrastructure in the capital Doha, helping the soccer World Cup taking place there this month run smoothly.

“We are possibly one of the most shining spots in the world today,” Saudi Finance Minister Mohammed al-Jadaan told reporters Wednesday. “But we are still connected, we are part of the world,” he added, and there is “potential downside risk for the world economy that is bothering us.”



Saudi Arabia's strong financial position has strengthened Crown Prince Mohammed bin Salman's influence globally.

PHOTO: RUNGROJ YONGRIT/REUTERS

The kingdom is experiencing a surprisingly successful year even as the U.S., Europe and many developing economies are facing rising inflation and recessions. While much of the world has been hit by rising food and energy prices spurred by Russia's invasion of Ukraine, oil giants like Saudi Arabia and its neighbors are benefiting from the influx of revenue.

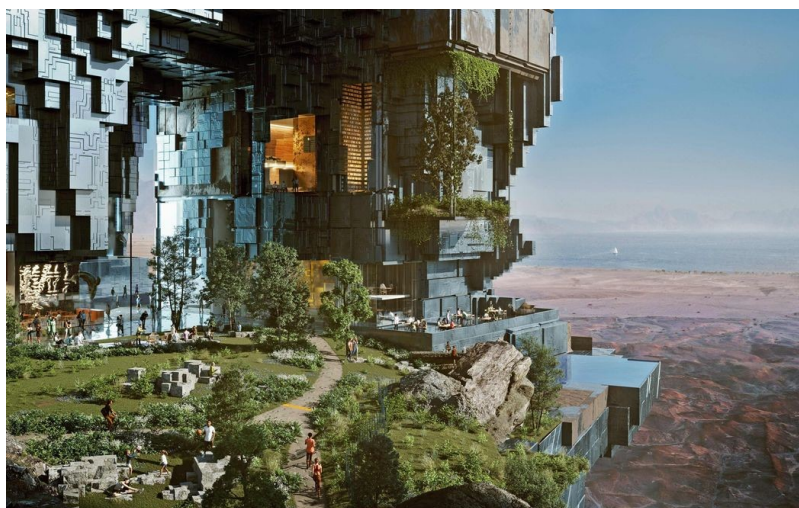
The Saudi government said revenues increased 28% to \$328 billion on higher oil sales this year, with \$300 billion predicted for next year. It expects oil prices to remain elevated, or above \$80 per barrel, according to Abu Dhabi Commercial Bank. Brent crude, the global oil benchmark, was at roughly \$78 per barrel

Wednesday, down from a high of nearly \$130 earlier this year. That is up from an average of \$70.86 a barrel last year and \$41.96 a year earlier.

It marks the first period of sustained high oil prices for Prince Mohammed, the 37-year-old who rules Saudi Arabia on behalf of his father. He rose to power during the oil-price crash of 2015 and oversaw a period of austerity measures for average Saudis, even as he pushed ahead with an ambitious program to diversify the country's economy away from oil.

That effort, known as Vision 2030 for the year it hopes to be completed, was initiated in 2016 as the kingdom grappled with depressed oil prices. Its strong financial position now has strengthened the prince's influence globally, helping restore him to the diplomatic stage after the 2018 murder of journalist Jamal Khashoggi caused Western leaders to shun Riyadh.

Prince Mohammed said the surplus would be used to boost government reserves, support national funds like the Public Investment Fund and strengthen the kingdom's financial position. The possibility of accelerating some priority projects is also being considered, he said in a statement.



An artist rendition provided by Saudi Arabia shows the kingdom's plans for a futuristic group of communities known as Neom.

PHOTO: NEOM/AGENCE FRANCE-PRESSE/GETTY IMAGES

Some of the ambitious projects Prince Mohammed has announced this year: A plan to build a 1,700-foot tall, 75-mile-long skyscraper in a futuristic group of communities known as Neom; an airport that aims to become one of the world's busiest international hubs; and just this week an island beach resort that hopes

to become the French Riviera of the Gulf. The resort is expected to sell alcohol —currently banned in the kingdom—and has a firm date for opening of 2024.

Saudi Arabia is also pouring money into redeveloping the downtown areas of its top metropolises, Riyadh and Jeddah, as well as a dozen of smaller cities. Its sovereign-wealth investment vehicle, the Public Investment Fund, has poured money into new companies, including an effort to create its own electric-vehicle car brand. Property firm JLL estimates \$1.1 trillion worth of construction projects are being studied in the kingdom.

“Our challenge today is how we can keep our focus on delivering the Vision 2030,” Prince Abdulaziz bin Salman, the Saudi energy minister, told a conference in Riyadh in October. “The rest to us is just noise.”

Saudi Arabia, the region’s biggest economy, has cautioned that it wants to avoid the boom and bust cycle that characterized previous moments of buoyant oil prices and painful collapses. Oil-fueled surpluses were used to build infrastructure, roads and public works and to boost Saudi public-sector salaries, appeasing a population under autocratic rule.

“Absolutely we are committed and we are determined” to decouple spending from commodity prices, said Mr. Jadaan, the finance minister. He said the government continued to move away from past habits of raising operating expenses like salaries and other payments to civil servants when oil prices were booming.

“We resisted this, big time. And despite the pressures politically we believe it is the right thing to do and people will adapt to it,” he said.





Saudi Arabia is trying to diversify away from oil sales into areas including tourism. Horse-drawn carriages outside the Jabal Ithlib archaeological site.

PHOTO: MAYA SIDDIQUI/BLOOMBERG NEWS

Since 2016, when oil prices fell to historic lows, the Saudi government has pursued fiscal austerity, including cuts to fuel, electricity and water subsidies as well as a new value-added tax that was tripled to 15% at the start of the pandemic.

“The higher oil price allows the government to move away from the focus on fiscal austerity,” said Monica Malik, chief economist at Abu Dhabi Commercial Bank. “The focus is very much on making progress with the investment program, which is essential to the Vision 2030 transformation plan.”

Saudi Arabia’s record with big development projects, however, is mixed. A \$10 billion Riyadh financial district and a new Red Sea city launched in 2005 have attracted fewer residents than planned.

Some of the proposals by Prince Mohammed also will require foreign capital—a scarce resource in the kingdom. International investors have poured money into the Saudi stock market and government and corporate debt. But companies have been reluctant to put people and resources on the ground, concerned, among other issues, about the rule of law.

Despite the boost to revenue, Saudi Arabia plans to keep tapping global debt markets next year to repay maturing bonds and take advantage of attractive terms, as it pushes ahead with the prince’s extensive—and expensive—wishlist.

“Given the sheer scale and number of megaprojects and initiatives being announced or under way in Saudi Arabia, I don’t see how the state can avoid financing obligations for the foreseeable future,” said Robert Mogleinicki, resident scholar at the Arab Gulf states Institute think tank in Washington, D.C.

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